

CLOVIS UNIFIED SCHOOL DISTRICT

Revised Audit Report

GRADUATION REQUIREMENTS PROGRAM

Chapter 498, Statutes of 1983

July 1, 1998, through June 30, 2002



STEVE WESTLY
California State Controller

September 2005



STEVE WESTLY
California State Controller

September 30, 2005

Terry Bradley, Ed.D., Superintendent
Clovis Unified School District
1450 Herndon Avenue
Clovis, CA 93611

Dear Dr. Bradley:

The State Controller's Office audited the claims filed by the Clovis Unified School District for costs of the legislatively mandated Graduation Requirements Program (Chapter 498, Statutes of 1983) for the period of July 1, 1998, through June 30, 2002.

This revised final report supersedes our previous final report, issued on October 22, 2004. We revised Finding 3 to state that approximately 50%, rather than 100%, of the construction project was financed with School Facility Program funds. We also updated Finding 1 based on information contained in a judgment entered into by the Sacramento County Superior Court.

The district claimed \$8,053,465 (\$8,054,465 in costs less a \$1,000 penalty for filing late) for the mandated program. Our audit disclosed that none of the claimed costs are allowable because the district did not support that it incurred increased costs for staffing and supplying the new science courses mandated by legislation. The district was paid \$5,787,494. The total amount paid should be returned to the State.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at www.csm.ca.gov (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

JEFFREY V. BROWNFIELD, Chief
Division of Audits

JVB:ams

cc: William C. McGuire

Associate Superintendent
Administrative Services
Clovis Unified School District

Peter Mehas, Ed.D.

Fresno County Superintendent of Schools
Fresno County Office of Education

Scott Hannan, Director

School Fiscal Services Division
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Audit Report

Summary

The State Controller's Office (SCO) audited the claims filed by Clovis Unified School District for costs of the legislatively mandated Graduation Requirements Program (Chapter 498, Statutes of 1983) for the period of July 1, 1998, through June 30, 2002. The last day of fieldwork was April 21, 2003.

The district claimed \$8,053,465 (\$8,054,465 in costs less a \$1,000 penalty for filing late) for the mandated program. Our audit disclosed that none of the claimed costs are allowable because the district did not support that it incurred increased costs for staffing and supplying the new science courses mandated by legislation. The district was paid \$5,787,494. The total amount paid should be returned to the State.

Background

Education Code Section 51225.3 (added by Chapter 498, Statutes of 1983) requires that, beginning with the 1986-87 school year, no pupil shall receive a high school diploma without completing an additional science course above that which was previously required. The legislation was effective in fiscal year (FY) 1983-84; however, a district had up to three years to implement this requirement. Prior to enactment of Chapter 498, Statutes of 1983, one science course was required. As a result of this enactment, two science courses, one each of biological and physical sciences, are now required.

On November 20, 1986, the Commission on State Mandates (COSM) determined that Chapter 498, Statutes of 1983, imposed a state mandate reimbursable under *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted *Parameters and Guidelines* on March 23, 1988, and last amended it on January 24, 1991. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Graduation Requirements Program for the period of July 1, 1998, through June 30, 2002.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, not funded by another source, and not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the district's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Revised Findings and Recommendations section of this report.

For the audit period, the Clovis Unified School District claimed \$8,053,465 (\$8,054,465 in costs less a \$1,000 penalty for filing late) for costs of the legislatively mandated Graduation Requirements Program. Our audit disclosed that none of the costs are allowable.

For FY 1998-99, the district was paid \$3,345,091 by the State. The audit disclosed that none of the costs claimed are allowable. The entire amount paid should be returned to the State.

For FY 1999-2000, the district was paid \$202,717 by the State. The audit disclosed that none of the costs claimed are allowable. The entire amount paid should be returned to the State.

For FY 2000-01, the district was paid \$1,114,303 by the State. The audit disclosed that none of the costs claimed are allowable. The entire amount paid should be returned to the State.

For FY 2001-02, the district was paid \$1,125,383 by the State. The audit disclosed that none of the costs claimed are allowable. The entire amount paid should be returned to the State.

Views of Responsible Officials

We issued a draft audit report on February 26, 2004. Terry Bradley, Ed.D., Superintendent, responded by the attached letter dated March 19, 2004, disagreeing with the audit results and stating that the audit report was not issued within the two-year statute of limitations. The district also requested that any request by the SCO for payment be deferred pending the court's decision on the disputed legal issues.

Revisions to Findings

In response to additional district-provided information, we revised Finding 3 to correctly state the funding source of the construction project. We also updated Finding 1 based on information contained in a judgment entered into by the Sacramento County Superior Court. The district's response to the February 26, 2004 draft audit report is included as an attachment to this revised final report.

Restricted Use

This report is solely for the information and use of the Clovis Unified School District, the Fresno County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 1998, through June 30, 2002

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 1998, through June 30, 1999</u>				
Salaries and benefits	\$ 554,076	\$ —	\$ (554,076)	Finding 1
Materials and supplies	70,450	—	(70,450)	Finding 2
Contracted services	2,679,035	—	(2,679,035)	Finding 3
Subtotals	3,303,561	—	(3,303,561)	
Indirect costs	42,530	—	(42,530)	
Total costs ²	3,346,091	—	(3,346,091)	
Less late penalty	(1,000)	—	(1,000)	
Total costs	<u>\$ 3,345,091</u>	—	<u>\$ 3,345,091</u>	
Less amount paid by the State		(3,345,091)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (3,345,091)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
Salaries and benefits	\$ 1,482,352	\$ —	\$ (1,482,352)	Finding 1
Materials and supplies	165,242	—	(165,242)	Finding 2
Contracted services	698,206	—	(698,206)	Finding 3
Subtotals	2,345,800	—	(2,345,800)	
Indirect costs	106,270	—	(106,270)	
Total costs ²	<u>\$ 2,452,070</u>	—	<u>\$ (2,452,070)</u>	
Less amount paid by the State		(202,717)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (202,717)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Salaries and benefits	\$ 955,872	\$ —	\$ (955,872)	Finding 1
Materials and supplies	87,190	—	(87,190)	Finding 2
Contracted services	—	—	—	
Subtotals	1,043,062	—	(1,043,062)	
Indirect costs	71,241	—	(71,241)	
Total costs ²	<u>\$ 1,114,303</u>	—	<u>\$ (1,114,303)</u>	
Less amount paid by the State		(1,114,303)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (1,114,303)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Salaries and benefits	\$ 1,022,501	\$ —	\$(1,022,501)	Finding 1
Materials and supplies	47,189	—	(47,189)	Finding 2
Contracted services	—	—	—	
Subtotals	1,069,690	—	(1,069,690)	
Indirect costs	72,311	—	(72,311)	
Total costs ²	<u>\$ 1,142,001</u>	—	<u>\$(1,142,001)</u>	
Less amount paid by the State		(1,125,383)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(1,125,383)</u>		
<u>Summary: July 1, 1998, through June 30, 2002</u>				
Salaries and benefits	\$ 4,014,801	\$ —	\$(4,014,801)	
Materials and supplies	370,071	—	(370,071)	
Contracted services	3,377,241	—	(3,377,241)	
Subtotals	7,762,113	—	(7,762,113)	
Indirect costs	292,352	—	(292,352)	
Total costs ²	8,054,465	—	(8,054,465)	
Less late penalty	(1,000)	—	1,000	
Net costs	<u>\$ 8,053,465</u>		<u>\$(8,053,465)</u>	
Less amount paid by the State		(5,787,494)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(5,787,494)</u>		

¹ See the Revised Findings and Recommendations section.

² Net of offsetting reimbursements and savings.

Revised Findings and Recommendations

FINDING 1— Unallowable salaries, benefits, and related indirect costs

The district did not provide documentation substantiating the allowability of claimed salaries and benefits totaling \$4,014,801 for the audit period. The related indirect cost is \$267,751.

Parameters and Guidelines requires that, beginning with the 1986-87 school year, no pupil is to receive a high school diploma without completing an additional science course above that which was required prior to enactment of Chapter 498, Statutes of 1983. The legislation was effective for fiscal year (FY) 1983-84; however, the district had up to three years to implement this requirement. Previously, one science course was required. As a result of this mandate, two science courses, one each of biological and physical sciences, are now required. The costs incurred for providing the additional science course, net of savings a district experiences as a direct result (e.g., reductions in non-science courses resulting from the increase in required science courses), are subject to reimbursement under this mandate. Consequently, only the net increased costs of the additional biological or physical science courses taught are reimbursable.

Parameters and Guidelines states that reimbursable costs include the increased cost to the school district for staffing and supplying the new science courses mandated. Furthermore, the guidelines state that reimbursement for this mandate received from any source (e.g., federal, state, and block grants) is to be identified and deducted.

For FY 1998-99 and FY 1999-2000, the district claimed high school science teachers' salaries and benefits based on a formula that determined an incremental increase in the teachers as a result of the mandate. The district calculated the increase in the number of high school science teachers between the 1985-86 base year and claim years and reduced that amount by the percentage increase in high school enrollment for the same period. The district then multiplied that number by the claim year's average annual salaries and benefits of a high school science teacher.

The calculation made by the district for FY 1998-99 and FY 1999-2000 did not identify the courses taught in the base year for the one required high school science course or the courses taught in the claim years for the two required high school science courses. In addition, the calculation deducted the high school enrollment percentage from the percentage increase in the number of high school science teachers rather than deducting the portion of the percentage increase in science teachers that was related to enrollment growth. Consequently, the calculation did not measure the costs of teaching the additional high school biological or physical science courses in the claim years as a result of the mandate.

In addition, the district included salary and benefit costs of six non-physical/biological science teachers in FY 1998-99, and 22 middle school teachers and one non-physical/biological science teacher in FY 1999-2000. Only the increased salaries and benefits for teaching the additional high school biological or physical science courses in the claim years due to the mandate are reimbursable.

For FY 2000-01 and FY 2001-02, the district claimed high school science teachers' salaries and benefits based on a formula that determined the increase in high school courses as a result of the mandate. The district divided one-fourth of the total number of grade 9-12 pupils by the average science course size to arrive at the additional science courses required for the mandate. The district then divided the additional science courses by the number of daily courses taught per teacher to arrive at the increased science teachers required by the mandate. From that number, the district multiplied the increased science teachers by the claim years' average science teacher salaries and benefits. This methodology measured the teacher salaries and benefits related to the additional biological or physical science courses taught as a result of the mandate.

For the audit period, the district did not identify or report any offsetting savings of salaries and benefits due to the reduction of teachers in non-science courses as a result of the mandate. Furthermore, the district did not support the lack of offsetting savings. Consequently, none of the claimed costs are reimbursable.

Total salaries, benefits, and related indirect costs are unallowable, as follows.

	Fiscal Year				Total
	1998-99	1999-2000	2000-01	2001-02	
Salaries and benefits	\$(554,076)	\$(1,482,352)	\$(955,872)	\$(1,022,501)	\$(4,014,801)
Indirect costs	(37,732)	(95,612)	(65,286)	(69,121)	(267,751)
Total adjustment	<u>\$(591,808)</u>	<u>\$(1,577,964)</u>	<u>\$(1,021,158)</u>	<u>\$(1,091,622)</u>	<u>\$(4,282,552)</u>

Claims filed for the audit period were similar to claims filed for FY 1984-85 through FY 1997-98. The SCO rejected these claims because the district failed to reduce claimed teacher salaries by offsetting savings (e.g., savings of salaries and benefits due to reduction of teachers in non-science courses). The district filed an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM) on October 4, 1995, and amended the IRC on August 3, 2000. The district argued that the SCO incorrectly reduced costs of science teachers' salaries.

In response, the SCO advised COSM that the district failed to report "offsetting savings and other reimbursement," as required by *Parameters and Guidelines*. Furthermore, the claimant did not provide reasons why offsetting savings could not be realized by laying off non-science teachers, as authorized in *Education Code* Section 44955. The SCO further advised COSM that the district voluntarily assumed the increased salary cost of a new teacher because the increased cost could have been avoided by exercising its statutory layoff authority. On January 25, 2002, COSM denied the district's IRC.

The district appealed the IRC's denial to the Sacramento County Superior Court. On February 9, 2005, the court entered a judgment and issued a peremptory writ of mandate directing COSM to set aside the decision sustaining the SCO reductions. On May 26, 2005, COSM adopted the court order.

The court states that the SCO cannot consider the claimant's authority to terminate teachers in non-science courses pursuant to *Education Code* Section 44955. The court further states that the SCO cannot deny the costs on the grounds that the claimants have not shown a reduction in non-science classes and teachers corresponding to the addition of science classes and teachers to comply with the mandate.

The court order further states that:

This conclusion does not prevent the Controller, when auditing school districts' reimbursement claims under section VI of the Commission's parameters and guidelines and section 6 of the Controller's claiming instructions, from requiring claimants to provide detailed documentation of offsetting savings directly resulting from their provision of the second science course, including savings that offset the salaries of teachers hired for the second science course. Such a documentation requirement has a firm legal basis in subdivision (e) of Government Code section 17556 and California Code of Regulations, title 2, section 1183.1(a)(9). Further, the documentation requirement reflects a reasonable expectation that savings to offset the science teachers' salaries may be generated when students taking the second science course do not increase the number of classes that they take overall. Thus, the Controller can properly require claimants to demonstrate that the second science course has not increased the number of classes provided during the school day and year along with the number of teachers required for the classes provided.

Recommendation

We recommend that the district develop and implement procedures to ensure that it claims only increased costs of salaries and benefits net of any offsetting savings and reimbursements the district experiences as a result of this mandate.

District's Response

The report states "[T]he mandate requires a district to provide the additional science course *in lieu of* a non-science course." (emphasis added) This is not a true statement of the law. Nothing in the legislation, the codes, or the parameters and guidelines states a requirement that a district is required to provide an additional science course *in lieu of* a non-science course.

The report states "...the district did not identify or report any offsetting savings of salaries and benefits due to the reduction of teachers in non-science classes as a result of the mandate. Furthermore, the district did not support the lack of offsetting savings. Consequently, none of the claimed costs is reimbursable." First of all, nothing in the legislation, the codes, the parameters and guidelines or the claiming instructions requires that a district support the lack of offsetting savings. Also, this statement presumes that there were offsetting savings. And, nothing in the legislation, the codes or the parameters and guidelines requires the support of a nonexistent fact.

The report, when referring to an incorrect reduction claim filed by the district pertaining to its fiscal year 1984-1985 through 1997-1998 claims, states: "...the claimant did not provide reasons why offsetting savings could not be realized by laying off non-science teachers as authorized. . . ." Nothing in the legislation, the codes, the parameters and guidelines or the claiming instructions requires districts to provide

reasons why offsetting savings could not be “realized.” The P&G’s only require districts to report offsetting savings. There were none to report.

The report also refers to the denial of the IRC. The report does not acknowledge the fact that the denial has been appealed to the courts and is therefore, not final. (Superior Court of the State of California, for the County of Sacramento, Case Number 03CS01702)

SCO’s Comment

The finding has been updated to include the district’s appeal to the Sacramento County Superior Court and to delete the phrase, “The mandate requires a district to provide the additional science course in lieu of a non-science course.” In addition, the finding has been updated to include information included in the adopted court order.

Furthermore, the district did not support that the additional science course required by the mandate did not result in a corresponding reduction of a non-science course.

FINDING 2— Unallowable materials, supplies, and related indirect costs

The district did not provide documentation substantiating the allowability of claimed materials and supplies totaling \$370,071. The related indirect cost is \$24,601. (See Finding 1 for a summary of *Parameters and Guidelines* requirements.)

The district claimed materials and supplies for FY 1998-99 and FY 1999-2000 using a methodology similar to the one used to allocate teacher costs for the same years (see Finding 1). The district did not identify the cost of courses taught in the base year for the one required science course, or the cost of high school courses taught in the claim years for the two required science courses. Furthermore, the district applied the percentage increase in high school science teachers between the 1985-86 base year and the claim years to the claim year number, rather than to the FY 1985-86 base-year number. Consequently, the calculation did not measure the costs of additional high school science courses taught in the claim years as a result of the mandate.

For FY 2000-01 and FY 2001-02, the district applied 50% of all high school science materials and supplies to the mandate. The district did not provide any documents to substantiate the claimed percentages.

For the audit period, the district did not identify or report any offsetting savings of materials and supplies due to the reduction of non-science courses as a result of the mandate. Furthermore, the district did not support the lack of offsetting savings.

In addition, the district did not support claimed materials and supplies, totaling \$128,321 (\$35,523 for FY 1998-99, \$83,127 for FY 1999-2000, \$8,983 for FY 2000-01, and \$688 for FY 2001-02), and claimed non-science textbooks, non-science materials, and duplicated costs, totaling \$38,544 (\$3,659 for FY 1998-99, \$28,851 for FY 1999-2000, \$5,722 for FY 2000-01, and \$312 for FY 2001-02).

The district also did not report \$178,517 in reimbursements from other programs that related to costs claimed (\$23,884 for FY 1998-99, \$47,852 for FY 1999-2000, \$71,069 for FY 2000-01, and \$35,712 for FY 2001-02). These reimbursements related to the following programs: School Facility Program, Science Laboratory Material Funds, Special Education, Title VI, and Gifted and Talented.

Total claimed materials, supplies, and related indirect costs are unallowable, as follows:

	Fiscal Year				Total
	1998-99	1999-2000	2000-01	2001-02	
Materials and supplies	\$ (70,450)	\$ (165,242)	\$ (87,190)	\$ (47,189)	\$ (370,071)
Indirect costs	(4,798)	(10,658)	(5,955)	(3,190)	(24,601)
Total adjustment	<u>\$ (75,248)</u>	<u>\$ (175,900)</u>	<u>\$ (93,145)</u>	<u>\$ (50,379)</u>	<u>\$ (394,672)</u>

Recommendation

We recommend that the district develop and implement procedures to ensure that it claims only increased costs of materials and supplies net of any offsetting savings and reimbursements the district experiences as a result of this mandate.

District's Response

The report states "...the district did not identify or report any offsetting savings of materials and supplies due to the reduction of non-science classes as a result of the mandate." This is a brand new issue and was not in the prior incorrect reduction claim or raised by your office in its prior claim adjustments. Nothing in the legislation, the codes, the parameters and guidelines or the claiming instructions requires a district to identify or report offsetting savings of materials and supplies due to the reduction on non-science classes.

SCO's Comment

The finding and recommendation remain unchanged.

The previous IRC addressed only offsetting savings for salaries and wages and not materials and supplies. The district did not support that the average materials and supplies for a science course exceeded the average materials and supplies for a non-science course during the audit period. Reimbursable materials and supplies consist of the increased cost multiplied by the number of courses taught to satisfy the second mandated science course requirement.

**FINDING 3—
Unallowable contracted
services**

For FY 1998-99 and FY 1999-2000, the district claimed contracted service costs for construction projects for four high schools: Clovis, Clovis West, Clovis East, and the Center for Advanced Research and Technology. The district did not provide documentation to substantiate the allowability of costs claimed, totaling \$3,377,241 for FY 1998-99 and FY 1999-2000.

Parameters and Guidelines states that the acquisition of additional space for conducting new science courses is reimbursable only to the extent that districts can document that this space would not have been otherwise acquired due to increases in the number of students enrolling in high school, and that it was not feasible, or would be more expensive, to acquire space by remodeling existing facilities.

Parameters and Guidelines also states that the district must provide certification by the board that an analysis of all appropriate science facilities within the district was conducted, and a determination made that no such facilities existed to reasonably accommodate increased enrollment for the additional science courses required by the enactment of *Education Code* Section 51225.3.

The district did not provide the auditors with a board certification, approved in advance of the FY 1998-99 and FY 1999-2000 construction projects, stating that the construction was carefully thought out and an analysis had been conducted of all appropriate science facilities within the district prior to the construction. On January 8, 2003, the district's board met and certified that, because of the mandate, the existing science facilities for FY 1998-99, FY 1999-2000, and FY 2000-01 failed to accommodate the current needs of the district, and, therefore, the district approved new construction, remodeling, equipment purchases, and/or temporary student classroom lease proposals. The district board members approved the certification approximately three to four years after construction; therefore, it did not meet the requirements of the mandate.

In addition, *Parameters and Guidelines* states that reimbursement for this mandate received from any source, including, but not limited to, service fees collected, federal funds, and other state funds, is to be identified and deducted from this claim.

The audit revealed that approximately 50% of the construction costs claimed were funded by School Facility Program funds.

Total claimed contract services are unallowable, as follows:

	Fiscal Year		Total
	1998-99	1999-2000	
Contract services	<u>\$(2,679,035)</u>	<u>\$ (698,206)</u>	<u>\$(3,377,241)</u>

The district had filed similar claims for FY 1984-85 through FY 1997-98. The SCO had rejected the contracted services costs on these claims because the district had failed to submit necessary documentation to satisfy the criteria of board certification for the costs of leasing portable classrooms. On October 4, 1995, followed by an amendment on August 3, 2000, the district filed an IRC for FY 1984-85 through FY

1997-98. The district argued that the SCO incorrectly reduced the district's contracted service costs.

In response, the SCO advised the Commission on State Mandates that the district failed to submit board certification, as required by *Parameters and Guidelines*. The SCO further advised that the board certification was not merely a formality but a demonstration that the construction or remodeling for which reimbursement is sought was carefully thought out and that no reasonable alternatives existed. On January 24, 2002, the commission denied the district's IRC.

Recommendation

We recommend that the district develop and implement procedures to ensure that all claimed costs are allowable and reimbursements received from any other sources are identified and deducted from claimed costs.

District's Response

The report states "[T]he district did not provide the auditors with a board certification approved *in advance* of the FY 1998-99 and 1999-2000 construction projects. . . ." (emphasis added) Nothing in the legislation, the codes, the parameters and guidelines or the claiming instructions requires *advance* certification. The report goes on to state "[T]he certification was approved by the district board members approximately three to four years after construction; therefore, it did not meet the requirements of the mandate."

SCO's Comment

The finding and recommendation remain unchanged.

The certification was not merely a formality but a demonstration that the construction costs to be incurred were carefully studied, and that no other facilities existed to accommodate the courses mandated. Thus, it is reasonable to conclude that such analysis would be performed prior to incurring the construction costs. The district did not perform an analysis until January 2003, approximately three to four years after the costs were incurred.

As discussed in the finding, the entire construction costs were funded through funds provided by the State. Even if the district had complied with the certification requirement, offsetting revenues related to contract services costs would have resulted in no net allowable costs.

Statute of limitations

The district's response included comments questioning our authority to audit costs claimed for FY 1998-1999 and FY 1999-2000. The district's response and the SCO's comment follow.

District's Response

The district's Fiscal Year 1998-1999 claim was filed on January 8, 2001. The district's Fiscal Year 1999-2000 claim was filed on December 29, 2000. The draft audit report is dated February 2004. Therefore, these two claims were only subject to audit until December 31, 2003 and December 31, 2002, respectively. Therefore, the proposed audit adjustments for these years are barred by the statute of limitations set forth in Government Code Section 17558.5.

SCO's Comment

The audit scope remains unchanged. *Government Code* Section 17558.5(a), in effect during the audit period, states that a district's reimbursement claim is subject to audit no later than two years after the end of the calendar year in which the claim is filed or last amended. The SCO initiated an audit within this time period by an entrance conference held on November 18, 2002.

Payment adjustment

Further, the district's response requested that we delay payment offsets. The district's response and the SCO's comment follow.

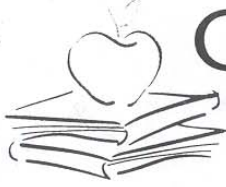
District's Response

Therefore, for the reasons stated above [see Attachment 1] Clovis Unified School District requests that the audit . . . defer any request for payment until the courts have had the opportunity to decide the disputed legal issues.

SCO's Comment

Consistent with our established policy, a request for payment will be initiated after the issuance of this report (see the transmittal letter to this report for discussion of COSM's IRC process).

**Attachment—
District's Response to
Draft Audit Report**



CLOVIS
UNIFIED
SCHOOL DISTRICT

1450 HERNDON AVENUE

CLOVIS, CA 93611-0599

559.327.9000

www.clovisusd.k12.ca.us

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

March 19, 2004

Mr. Jim L. Spano, Chief
Compliance Audits Bureau
California State Controller
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

GOVERNING BOARD

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Susan M. Walker, D.H.Sc.

Dear Mr. Spano:

This letter is the response of Clovis Unified School District to the letter of Vincent P. Brown dated February 26, 2004 which enclosed a Draft Copy of your Audit Report of the district's Graduation Requirements Program, Chapter 498, Statutes of 1983, for the period of July 1, 1998 through June 30, 2002.

Statute of Limitations

ADMINISTRATION

Terry Bradley, Ed.D.
Superintendent
Virginia R. Boris, Ed.D.
Associate Superintendent
Daniel E. Kaiser, Ed.D.
Associate Superintendent
William C. McGuire
Associate Superintendent
Janet L. Young, Ed.D.
Associate Superintendent

The district's Fiscal Year 1998-1999 claim was filed on January 8, 2001. The district's Fiscal Year 1999-2000 claim was filed on December 29, 2000. The draft audit report is dated February 2004. Therefore, these two claims were only subject to audit until December 31, 2003 and December 31, 2002, respectively. Therefore, the proposed audit adjustments for these years are barred by the statute of limitations set forth in Government Code Section 17558.5.

Finding 1 - Unallowable salaries, benefits and related indirect costs.

The report states "[T]he mandate requires a district to provide the additional science course in lieu of a non-science course." (emphasis added) This is not a true statement of the law. Nothing in the legislation, the codes, or the parameters and guidelines states a requirement that a district is required to provide an additional science course in lieu of a non-science course.

The report states "... the district did not identify or report any offsetting savings of salaries and benefits due to the reduction of teachers in non-science classes as a result of the mandate. Furthermore, the district did not support the lack of offsetting savings. Consequently, none of the claimed

costs is reimbursable." First of all, nothing in the legislation, the codes, the parameters and guidelines or the claiming instructions requires that a district support the lack of offsetting savings. Also, this statement presumes that there were offsetting savings. And, nothing in the legislation, the codes or the parameters and guidelines requires the support of a nonexistent fact.

The report, when referring to an incorrect reduction claim filed by the district pertaining to its fiscal year 1984-1985 through 1997-1998 claims, states "... the claimant did not provide reasons why offsetting savings could not be realized by laying off non-science teachers as authorized ..." Nothing in the legislation, the codes, the parameters and guidelines or the claiming instructions requires districts to provide reasons why offsetting savings could not be "realized." The P&G's only require districts to report offsetting savings. There were none to report.

The report also refers to the denial of the IRC. The report does not acknowledge the fact that the denial has been appealed to the courts and is, therefore, not final. (Superior Court of the State of California, for the County of Sacramento, Case Number 03CS01702)

Finding 2 - Unallowable materials, supplies, and related indirect costs.

The report states "... the district did not identify or report any offsetting savings of materials and supplies due to the reduction of non-science classes as a result of the mandate." This is a brand new issue and was not in the prior incorrect reduction claim or raised by your office in its prior claim adjustments. Nothing in the legislation, the codes, the parameters and guidelines or the claiming instructions requires a district to identify or report offsetting savings of materials and supplies due to the reduction on non-science classes.

Finding 3 - Unallowable contracted services

The report states "[T]he district did not provide the auditors with a board certification approved in advance of the FY 1998-99 and 1999-2000 construction projects ..." (emphasis added) Nothing in the legislation, the codes, the parameters and guidelines or the claiming instructions requires advance certification. The report goes on to state "[T]he certification was approved by the district board members approximately three to four years after construction; therefore, it did not meet the requirements of the mandate."

Jim L. Spano, Chief
Compliance Audits Bureau
March 19, 2004

The certification requirement was inserted into the P&G's for the purpose of verifying the need for construction. If the "need" is verified by the responsible governing body after the fact, it still verifies the need.

Therefore, for the reasons stated above, Clovis Unified School District requests that the audit report be changed to comply with the law and to defer any request for payment until the courts have had the opportunity to decide the disputed legal issues.

Sincerely,

A handwritten signature in cursive script, appearing to read "Terry Bradley".

Terry Bradley, Ed.D.,
Superintendent

cc: Steve Westley, California State Controller
William C. McGuire, Associate Superintendent - Administration
Michael Johnston, Assistant Superintendent - Business
Pat Kraft, Senior Accountant - Business

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